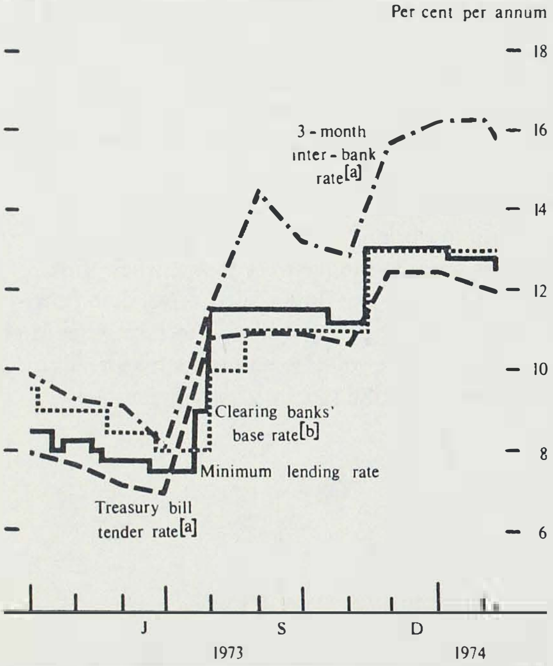
Financial review

This review begins with a general survey of recent financial developments. It then deals in turn with each of the main sectors – though only partial statistics are available after the third calendar quarter. Thirdly, it reviews the course of interest rates and other developments in the various markets during November to January. At the end, it sets out the regular flow of funds tables.

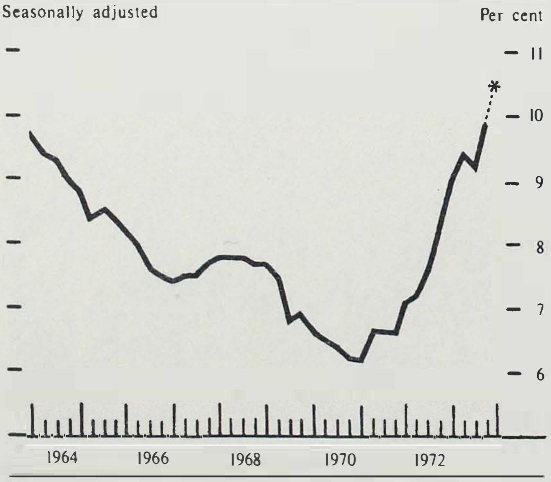
Short-term interest rates in London



After the sharp rise in minimum lending rate in November, short-term rates remained high.

[a] Last Friday of month.
[b] Changes are recorded when a majority of the big four London clearing banks have moved to a new rate.

Company liquidity[a]



Though no doubt unevenly spread among companies, company liquidity in total is estimated to have increased further in the fourth quarter.

* Estimated.
[a] Ratio of company liquid assets to total final expenditure in the previous twelve months. Liquid assets comprise bank deposits, Treasury bills, tax reserve certificates, tax deposit accounts, local authority temporary debt, and deposits with both building societies and finance houses. Total final expenditure is a proxy for the turnover of industrial and commercial companies.

General financial developments

The rise in interest rates which began in the summer continued into the new year, lifting rates generally to new peaks. The sharpest increase occurred in November, when, following a very rapid expansion of bank lending to the private sector and of the money stock broadly defined (M_3), the Bank raised minimum lending rate from 11¼% to 13%. Thereafter money market rates generally fluctuated, reflecting to some extent pressure on banks' reserve ratios. Rates remained high in January – despite the waiving of two calls for special deposits – partly because revenue receipts by the Exchequer, always at a peak at this point in the financial year, were even higher than expected. In these conditions, and in the light of prospective difficulties from growing industrial disruption, a small release of special deposits was made early in February.

Despite rising interest rates, bank lending to the private sector and M_3 each continued to rise fast; M_1, the money stock narrowly defined, also rose during the fourth quarter, but by much less. In order to obtain a better control over the rate of monetary expansion, the supplementary deposits scheme, discussed on page 37, was introduced on 17th December. As in the third quarter, much of the increase in bank lending and to a lesser extent in bank deposits was on company account. A sizable increase in bank lending to companies was to be expected at a time when they were rebuilding stocks at greatly inflated prices. As well, however, companies were better placed to take advantage of the possibilities for arbitrage which the pattern of rates in recent months had allowed. It is one of the aims of the supplementary scheme, and of some changes in banking practice announced at the same time by the clearing banks (see page 21), to curtail such transactions.

Despite a rapidly worsening financial deficit, the company sector built up its gross liquidity even further in the December quarter (see the chart). This cushion of liquidity will have helped companies to meet the pressures of reduced cash flow caused by the industrial disruption. But liquidity was no doubt unevenly spread among companies, and the longer such disruption will have continued the more serious the financial problems of those affected will have become, and the bigger the repercussions for other sectors, particularly the overseas and public sectors.

Thus some corporation tax payments may well turn out to have been more than usually delayed, but it is in general too soon to judge how the current disruption will have affected the financial position of the public sector. Although the effects must be adverse in the longer term, particularly for the nationalised industries, in the immediate future it still looks as if the central government's borrowing requirement will be much smaller in 1973/74 than initially forecast. This is partly because nationalised industries and local authorities have borrowed more heavily in the euro-dollar market than initially expected, and less heavily from the Government and other sources. To this extent, the size of the public sector's combined borrowing requirement will have been unaffected.

Although the personal sector continued in comparatively large surplus in the third quarter, and probably also in the fourth, the increase in personal holdings of financial assets returned to a more normal scale.

Meanwhile, personal borrowing began to fall away in the fourth quarter, and seems unlikely to recover for some time, given the reintroduction of hire-purchase terms control, the shortage of mortgage funds, qualitative guidance for bank lending, and tighter credit generally. Moreover, the reduction in personal savings during the period of the three-day working week is likely to have been so great that there will have been a marked decline in the sector's acquisition of financial assets.

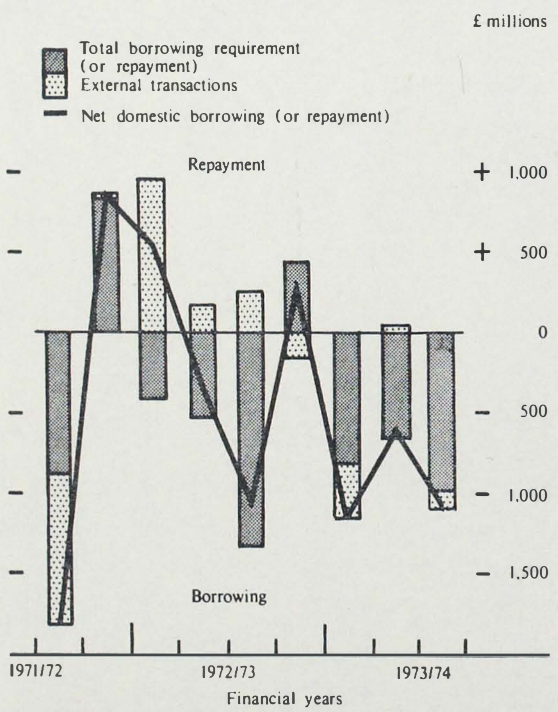
Sector financing

The following sections review the flow of funds sector by sector, generally from the third quarter of last year onwards.

Central government

In the September quarter the central goverment's borrowing requirement amounted to some £660 million (or only about £190 million after seasonal adjustment). As in the June quarter, this was less than would have been expected from the Budget estimates for 1973/74, partly because public corporations and local authorities continued to borrow heavily in euro-dollars under the exchange guarantee scheme, rather than drawing funds from the central government. The dollar proceeds, sold to the Government for sterling, were more than offset by calls on the reserves, which fell by £260 million, but sales of government debt by overseas holders meant that, in total, external transactions reduced the central government's need for domestic finance by only about £40 million. A large proportion of the £620 million or so remaining was provided by the general public, who put a further £320 million into gilt-edged stock, though only £40 million into national savings; the Issue Department reduced its holdings of commercial bills and local authority debt by £85 million. This left the banks to provide some £240 million.

Central government's borrowing requirement(−)



The borrowing requirement rose in the December quarter despite large receipts of value added tax.

In October, manufacturers paid five months' value added tax – their first payment since its introduction[1] – and the central government enjoyed a considerable surplus. But over the December quarter as a whole the borrowing requirement amounted to as much as £1,000 million (or £690 million after seasonal adjustment). The increase in the fourth quarter can be ascribed in part to the increased demands of local authorities, which borrowed £420 million from the Public Works Loan Board (as against £160 million in the previous quarter). As for the pattern of financing, public bodies borrowed some £300 million in foreign currencies under exchange guarantee, but this was broadly offset by other foreign exchange operations, and the reserves rose by only £20 million. Meanwhile, overseas holders again sold government debt, so that external transactions in aggregate swelled the Government's domestic financing needs by £110 million, to some £1,110 million. The general public increased their holdings of notes and coin by about £80 million, and bought £475 million of gilt-edged stocks. But they withdrew £75 million net from national savings as the rates offered became increasingly out of line with other rates; this was the first quarter for many years in which the total amount invested through the movement fell. At the same time, the Issue Department acquired a net £200 million of commercial bills and local authority debt in the course of money market operations. In all, £840 million remained to be provided by the banking system (of which £360 million was transmitted via the Banking Department in the form of special deposits).

In the first three quarters of the current financial year external transactions added £420 million to the Government's domestic financing needs, and brought them in total to about £2,890 million. Of this, about half was obtained by sales of all kinds of debt (including notes and coin) to the general public, leaving the banking sector to provide the other half. The March quarter can be expected to see a central government surplus, even though energy shortages and three-day working will reduce it in so far as they lead to heavier payments of social security benefits and to reduced receipts from pay as you earn and other tax payments; and there will probably be some repayment of debt to the banking system over the quarter as a whole.

Thus the central government's borrowing requirement, which in the first three quarters of the financial year totalled some £2,470 million, is likely for the year as a whole to be considerably less than this, whereas the

[1] See the December 1973 *Bulletin*, page 435, for a note on the change-over to value added tax from purchase tax and selective employment tax. Consequent modifications to the seasonal adjustments are described in a footnote to Table B on page 30.

Budget estimate was £3,650 million. But borrowing in the domestic markets will not have been equivalently reduced, partly because the proceeds of the heavy borrowing by public bodies in foreign currency under exchange guarantee are surrendered to the reserves for sterling, and the sterling has to be borrowed from domestic sources by the Government.

The rest of the public sector

The latest full set of figures for the financial transactions of local authorities and public corporations relate to the September quarter, when their combined financial deficit amounted to very nearly £850 million after seasonal adjustment, much more than in the preceding quarters. Meanwhile, the trend towards borrowing in foreign currencies rather than from the central government continued. Thus public corporations repaid debt to the central government for the second quarter running, though local authorities borrowed a normal amount for the quarter from the Government, given the size of the year's PWLB quotas.

Preliminary indications for the fourth quarter suggest that there was an even larger combined financial deficit, perhaps of the order of £1,000 million, with a greater share of the finance being drawn from the central government. Thus local authorities may have had a deficit of about £700 million, financed mainly by heavy recourse to the Government, for £420 million, and a further £150 million of temporary borrowing. Public corporations borrowed £310 million in foreign currencies, including euro-bond issues abroad of £20 million, but appear to have used about £90 million of this to repay bank loans in sterling; they also borrowed £160 million from the Government.

Industrial and commercial companies

Gross trading profits of all companies (here including financial institutions as well as industrial and commercial companies) rose by only 1% in the third quarter after seasonal adjustment, and, if the element attributable to stock appreciation is excluded, there was almost certainly a fall. But their investment income rose more rapidly, and their saving was therefore somewhat greater. Saving by industrial and commercial companies followed the same pattern, but they devoted much more of their resources this time to physical assets as the general revival in investment got under way, and they moved into substantial financial deficit.

Financial position of industrial and commercial companies (surplus +/deficit –)
£ millions: *seasonally adjusted*

1972				1973		
1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
+220	+50	+100	+250	–120	–30	–200

The total financing needs of industrial and commercial companies, including expenditure on trade investments and mergers at home and long-term investment abroad, amounted to some £640 million, seasonally adjusted, in the third quarter – about half as much again as in the previous quarter (see Table E on page 32). Not more than £16 million was raised through net capital issues at home. By contrast, net overseas investment in the sector totalled some £230 million, almost as much as the previous quarter's exceptionally high figure. But the outstanding source of funds continued to be bank borrowing, which rose by as much as £1,700 million; a large part of this was channelled back to the banking system as interest-bearing deposits.

Bank borrowing by industrial and commercial companies (increase +)
£ millions: *seasonally adjusted*

1972				1973			
1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
+820	+800	+660	+850	+680	+500	+1,740	+1,650

In the fourth quarter very heavy borrowing from banks continued. Some of the funds were used for stockbuilding and fixed investment; but the structure of bank interest rates offered scope at times for arbitrage, and may also have encouraged companies to use their bank facilities to meet tax payments (such as the heavy payment of value added tax in October) and other expenditure, rather than draw down their liquid assets, especially their high-yielding interest-bearing bank deposits. Indeed, their assets increased again in the fourth quarter both absolutely and probably as a proportion of their turnover (see the chart on page 16). To some extent this continuing desire for liquidity can be attributed to the general uncertainty, but precautionary borrowing in anticipation of official restrictions – widely canvassed in the press – must also have played a part.

Bank deposits (including certificates of deposit) of industrial and commercial companies (increase +)

£ millions: *seasonally adjusted*

1972				1973			
1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
+250	+510	+580	+710	+590	+10	+1,090	+690

Since the turn of the year industry's problems with shortages of labour and supplies have been compounded by the three-day week, but so far the financial pressures on companies have been less acute than at first seemed likely. In fact, industry began the emergency in a very liquid position, though the liquidity was somewhat unevenly spread and supported by a very large amount of short-term borrowing. Moreover, the cash flow of many companies was at first actually increased, as receipts continued to reflect past deliveries while outgoings fell with production. Thereafter, however, pressures began to grow – for instance, there were signs during February of a distinct tightening of trade credit, with small companies generally the first to feel the pinch.

The personal sector

During the third quarter personal disposable income rose slightly less quickly than consumption (at current prices and after seasonal adjustment), leaving the savings ratio slightly lower. But at 10·1% it remained high and, in contrast with the second quarter, not obviously subject to strong transitory influences such as the change-over to value added tax. The sector continued in substantial financial surplus, though by less than in the previous quarter.

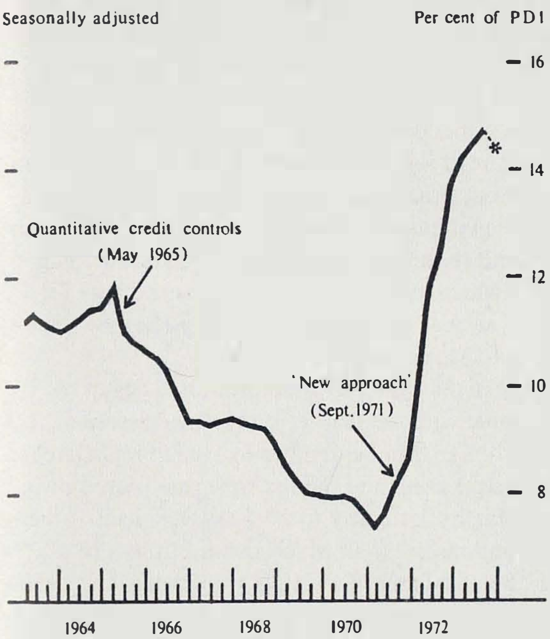
Financial position of the personal sector

£ millions: *seasonally adjusted*

	1972				1973		
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
Financial surplus (+)/deficit (–)	– 10	+ 370	+ 170	+ 240	– 80	+ 490	+ 350
Identified financial transactions:							
Borrowing (–)	–1,000	–1,240	–1,060	–1,570	–1,300	– 980	– 980
Acquisition of assets (+)	+1,520	+1,670	+1,480	+1,740	+1,800	+2,460	+2,000
Unidentified	– 530	– 60	– 250	+ 70	– 580	– 990	– 670

Once again the flow of funds accounts suggest a much greater net acquisition of financial assets by persons than the national income accounts. About the same amount was borrowed in the third quarter as in the second, while rather fewer assets were acquired. Identified net acquisitions in fact amounted to some £2,000 million, seasonally adjusted, compared with £2,460 million in the June quarter. Persons appear to have sold record amounts of equities and debentures, and they added less to their deposits with building societies than in the June quarter. Indeed the societies attracted only £50 million of net new receipts in September (including interest credited, and after seasonal adjustment). Moreover, the

Personal indebtedness[a]



Personal borrowing in relation to incomes is estimated to have fallen in the fourth quarter, when measures to tighten credit began to take effect.

* Estimated.

[a] Personal sector borrowing outstanding as a percentage of personal disposable income in the previous twelve months. Borrowing comprises bank finance (except for house purchase) and instalment credit.

net inflow to national savings was only around £25 million a month on average. In contrast, the personal sector added as much as £960 million to its bank deposits, no doubt influenced in part by the marked rise in rates offered during the quarter, and in part by fears of further falls in security prices.

Few statistics are yet available for the fourth quarter, but it is clear that the flow of personal funds to building societies recovered briefly in the first six weeks or so of the period, only to relapse again thereafter as relative rates of return moved once more against the societies' depositors. The effect of this should have been mitigated from mid-September by the limit of 9½% on interest rates on bank deposits of less than £10,000. But the personal sector's bank deposits still grew by over £950 million, allowing for seasonal movements. National savings became progressively less competitive, and net withdrawals, seasonally adjusted, totalled some £70 million. Borrowing from the banks actually fell over the quarter, for the first time since 1971, presumably because the successive measures to tighten credit began to take effect.

In the immediate future the constraints imposed by the new hire-purchase restrictions and those on borrowing on credit cards, together with the supplementary deposits scheme, should restrain borrowing still further. Combined with the direct effect on personal incomes and savings of the three-day week, this general tightening of credit has doubtless allowed few acquisitions of assets since the turn of the year.

The banking sector

In the fourth quarter, and allowing for seasonal movements, bank lending to industrial and commercial companies was almost as heavy as in the third quarter, and lending to the public sector was much greater. But the personal sector made net repayments. As regards the banks' liabilities, there were further big increases in the deposits of the personal sector and of industrial and commercial companies, though the latter grew by considerably less than in the third quarter (see Table F on page 33).

As in the third quarter, the increase in the deposits of the *banks* was concentrated in deposit accounts and certificates of deposit, for rising interest rates further enhanced the attractions of interest-bearing deposits as against current accounts or indeed a variety of other assets. Over the three months from mid-October to mid-January the banks' eligible liabilities rose by over £1,650 million (nearly 6%) and their reserve assets by £270 million, and their combined reserve ratio increased slightly, from 13·8% to 13·9%. Early on, the ratio rose to 14·3% in November, but calls for a further 2% of special deposits were announced on 13th November. Following payment of the first two ½% instalments, the ratio fell to 13·8% again in mid-December. Temporary pressure on their ratios seemed likely to increase and, when the supplementary deposits scheme was introduced in December, the remaining two ½% instalments were waived. Subsequently, on 4th February, ½% of outstanding special deposits was repaid to help relieve shortages of funds.

When the supplementary deposits scheme was announced on 17th December (see page 37), the clearing banks announced that the rates they would charge on advances to certain classes of customer (in particular local authorities, finance houses, and other banks) were to be related to market rates instead of to base rates, and that base rates would be adjusted more rapidly to movements in market rates. This was to help curtail arbitrage.

A modification was announced on 19th December to the scheme for export finance provided by the clearing banks for periods of two years and over and guaranteed by the Export Credits Guarantee Department.[1] With effect from the beginning of 1974, the single fixed rate, which had stood at 6% since March 1972, was abolished. Business done on credit from two to five years now carries a fixed rate of 7%, but for business over five years there is a range of rates from 6% to 8½%, with a specific rate within that range being fixed by the ECGD for each contract. In accord-

[1] The scheme is described in the June 1972 *Bulletin*, page 205.

ance with international commitments, the rate for shipbuilding (including exports of ships) remains at 7%, regardless of the length of credit.

Towards the end of the year a number of deposit-taking institutions on the fringe of the banking system experienced widespread withdrawals of their deposits, obtained mainly through the money market but in some cases partly from small savers. The resulting squeeze on their liquidity threatened to force them to suspend repayment of deposits and could well have caused the distrust to spread to other parts of the banking system. In response, the Bank took action, announced on 21st December, to sustain confidence and to protect the interests of ordinary depositors by establishing a standing control committee chaired by the Deputy Governor. This committee examines the individual circumstances of each candidate for support, and, where support seems justified, arranges for assistance to be given by recycling money market funds.[1]

The *discount houses*, attracted by the yields on offer, had begun to build up their books in October, and the market's undefined assets multiple had risen sharply from 13·3 in September to 16·2 in mid-October. The pace of expansion then slackened, and the multiple rose more slowly to 17·8 in November, dropping back slightly to 17·5 in December. If the figure of resources (capital and reserves) on which the multiple is based had remained unchanged, the mid-January multiple would also have been 17·5. But resources are recalculated every January,[2] the new total was smaller, and the multiple rose to 18·8, not far short of the permitted maximum of twenty times. In the three months to mid-January, the houses sold some £10 million of gilt-edged stocks, but added about £110 million of Treasury bills and £70 million of sterling certificates of deposit. The average cost of their funds rose steadily, from about 10¾% in mid-October to nearly 12% in mid-January.

Finance houses

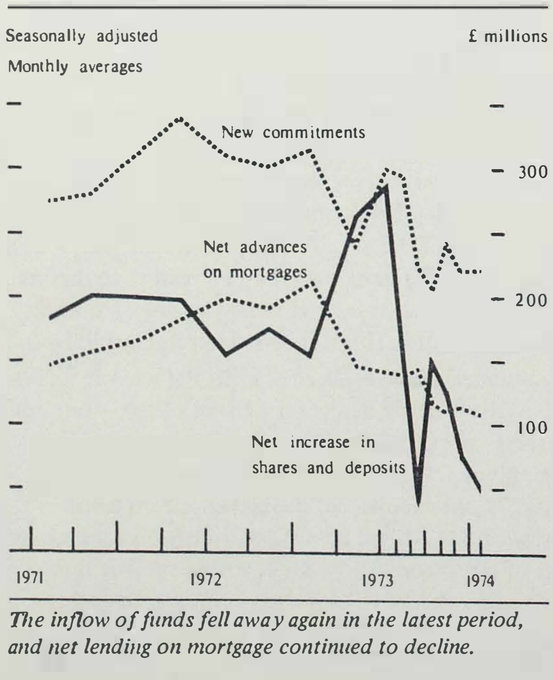
Allowing for seasonal movements, the finance houses extended some £350 million of new hire-purchase and other instalment credit in the fourth quarter, and the total amount of debt outstanding grew by £75 million; these increases were rather below the average in the rest of the year.

On 17th December control of credit terms was reintroduced on a range of consumer durable goods. Minimum deposits for most goods are set at 33⅓% – traders had typically been asking for 20% to 25% – and repayments are required to be made within two years. The new limits are broadly the same as those removed in July 1971. Together with other developments in the economy, they are likely to mark the end of two years of unusually buoyant trading for the finance houses. At the same time the houses have had to live with difficult conditions in the money market, where maturing deposits were renewable only at greatly increased rates of interest and for comparatively short periods. A typical three-month rate paid by finance houses rose from about 13% at the end of October to about 16½% at the end of January.

Building societies

During November to January the building societies were partly shielded from competition from the banks by the limit, introduced in September, of 9½% interest on bank deposits of under £10,000. They had no such protection from rates in the local authority and gilt-edged markets, which rose strongly over these months. Because the societies' deposit rates had been raised at the beginning of October, their inflow had recovered for a while, but the recovery petered out after the sharp rise in short-term interest rates on 13th November. Their net receipts, including interest credited to account and allowing for seasonal movements, were about £125 million in November, £75 million in December, and £50 million in January. For only the second time in recent years, in January, as in September, gross withdrawals exceeded gross receipts (excluding interest credited).

Building society funds



The inflow of funds fell away again in the latest period, and net lending on mortgage continued to decline.

[1] See also the speech by the Governor reprinted on page 54.
[2] See the September 1973 *Bulletin*, page 307.

The societies' lending on mortgage remained subdued, and, allowing for seasonal movements, the net amount provided rose by an average of about £110 million a month, compared with over £130 million during August to October. The amount of the societies' new commitments fluctuated, but probably tended to fall a little further (see the chart). Their combined liquidity ratio, seasonally adjusted, fell from 16·0% at the end of October to 15·3% at the end of January.

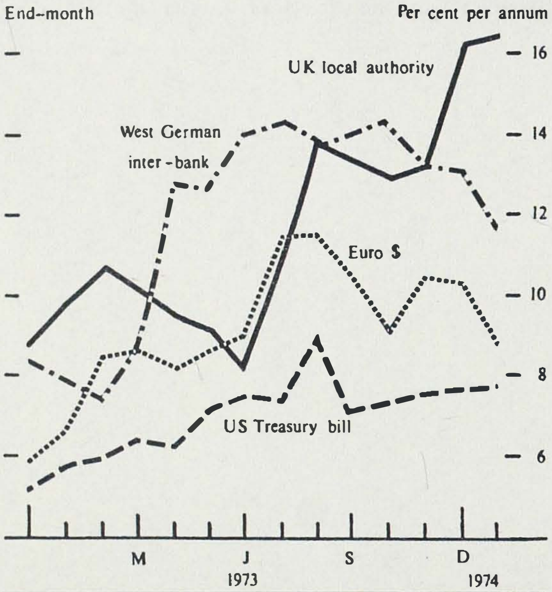
Discussions have continued between the Government and the societies about both the immediate problems and the longer-term aspects of trying to ensure a steadier flow of private sector finance for housing.[1] Exploratory talks have taken place between the Bank and representatives of the Building Societies Association to examine the feasibility of special arrangements to obtain long-term finance for the societies from the capital market.

[1] See the December 1973 *Bulletin*, page 428.

Developments in financial markets

The following sections discuss developments in financial markets in the more recent period, for which full information on flows of funds affecting different sectors (considered in preceding sections) is not available. Most of the discussion refers to events in the three months November to January: later developments are noted where particularly important.

Three-month interest rates at home and abroad



Some foreign short-term interest rates eased in January, but UK rates still tended to rise.

Short-term interest rates

In most countries interest rates resumed an upward path in November, though in the United States and Western Germany, in particular, they tended to turn down again in the new year. US rates fell further in February. By the end of the period, rates in the United Kingdom, apart from Treasury bill yields, were mostly around new peaks.

As the recovery of the US dollar gathered momentum, interest rates were raised in several countries to discourage capital outflows. Belgian bank rate was increased from 7% to 7¾% from 29th November, mainly because a deterioration in the external position was in prospect. At the end of the period the rate was raised to 8¾%. The guilder came under pressure in the early part of December, mainly as a result of the Arab embargo on oil shipments to the Netherlands, and bank rate was raised on 6th December from 7% to 8%. Bank rate in Denmark was raised from 8% to 9% on 20th December and to 10% a month later. Although Switzerland, like some other continental countries, took steps in December to ease end-year pressures in the markets, conditions remained tight, and the Swiss bank rate also was raised by 1%, to 5½%, in the middle of January. Monetary conditions remained tight in Japan too. Bank rate was raised from 7% to 9% on 22nd December. Even so, short-term funds continued to leave the country.

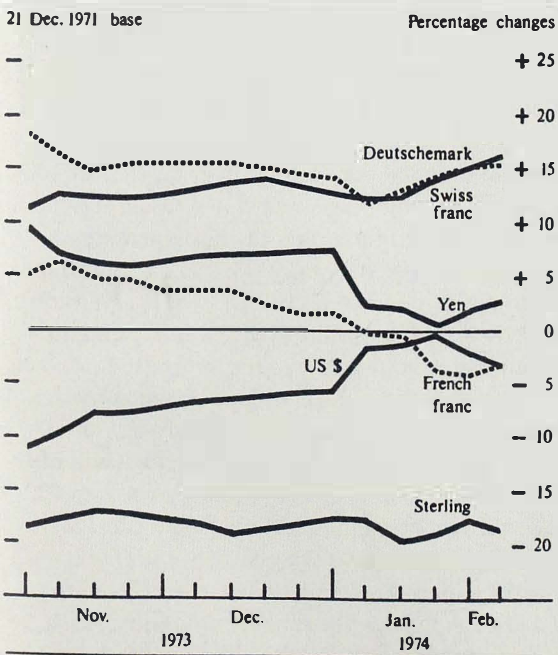
After an initial easing of interest rates in the United States in the early autumn, the market realised it had over reacted to indications of a relaxation of monetary restraint by the Federal Reserve, and interest rates became firmer in November and early in December. However, after the Federal Reserve moved later in December to cushion the adverse effects of the oil shortage on production and employment, interest rates once more began to decline in the new year. Some of the main US banks raised their prime rates from 9¾% to 10% in early December, but this move was reversed in January, by the end of which most prime rates had been reduced to 9½%. Yields on US Treasury bills rose strongly in early November, and, partly because of sales by overseas central banks to obtain dollars for intervention in their exchange markets, reached a peak at 8½% in the middle of the month. However, they soon eased, and remained around 7⅞% throughout December, before increasing again to 7¾% by the end of January.

UK interest rates had eased a little during September and October, but they rose very steeply in the middle of November when minimum lending rate was raised from 11¼% to 13%. Rates of discount on Treasury bills jumped from 10⅞% to around 12½%. However, they eased to 12% during January, and minimum lending rate consequently fell, in two stages, to 12½% by the beginning of February. By contrast, rates in the parallel markets went higher still in January. Thus, the three-month inter-bank rate, which had been 12¾% at the end of October, increased to over 15½% during November; rose in December to 16¼%, partly under end-year pressures; and then, after easing for a while, went to 16¾% towards the end of January as heavy seasonal tax payments to the Exchequer absorbed funds.

The increase in interest rates in November was immediately reflected in a sharp increase in the cost of forward cover, and the discount on three-month sterling widened to around 6% per annum, compared with 4¼% at the end of October. As conditions tightened in anticipation of severe restrictions in the Chancellor's statement on 17th December, the discount on three-month sterling rose to 7¾%, the highest of the year. In January it went higher still. Indeed, it leapt briefly to as much as 13½% on the 30th, when there was a heavy demand for funds as operators who had earlier gone short of sterling sought to roll their positions forward; and rates of nearly 450% per annum were paid for overnight swaps in the exchange market.

The increase in the cost of forward cover in fact outweighed the rise in sterling interest rates, and covered interest differentials against sterling widened over the period, from ¾% at the end of October to 3% at the end of January, having touched 6% on the 30th.

Effective changes in exchange rates[a]



There was a rapid appreciation of the US dollar, partly because of the oil situation, and a depreciation of the yen and the French franc, but sterling was little changed on balance over the period.

[a] Defined in the additional notes to Table 29 of the statistical annex.

Foreign exchange and gold markets

November to January was another eventful period in the foreign exchange markets. After the cease-fire in the Middle East, markets were dominated by the oil situation, which had more serious implications for Europe and Japan than for the United States. The fact that the United States was better able to withstand smaller Arab supplies and higher prices, taken with the continuing improvement in the US balance of payments, led to a sharp acceleration in the recovery of the dollar and to substantial capital outflows from Europe and Japan.

The upsurge of strength by the dollar, coupled with the effect of Britain's domestic energy disputes, caused *sterling* to fall from $2·44 at the end of October to $2·28 at the end of January. It dropped to around $2·15 on 21st January, its lowest ever dollar exchange rate. However, other currencies suffered as well, and against the main foreign currencies taken together sterling was much steadier – its effective depreciation since the Smithsonian settlement of December 1971 narrowed from 18½% to 17%, after widening briefly to 20½% earlier in January.

In November, sterling soon weakened against the dollar but, as the dollar strengthened more quickly on the Continent, the pound's effective depreciation against foreign currencies generally decreased. Moreover, the adverse effects of the publication in mid-November of the record UK trade deficit for October were offset by the simultaneous increase in minimum lending rate, further calls for special deposits, and the ensuing general rise in interest rates. In all, the effective depreciation decreased to just under 17%, the smallest of the period. However, in the second half of November industrial prospects deteriorated following the miners' rejection of a revised pay offer by the National Coal Board, and there was some fairly heavy selling of sterling: by the end of the month, as the dollar strengthened less quickly in other centres, the effective depreciation had increased to 18¼% and the dollar rate had fallen to $2·34¼. Sterling weakened further in early December after the publication of a gloomy economic forecast in the *National Institute Economic Review*, and the dollar rate continued to fall, to $2·30½ in the middle of the month, when the effective depreciation had widened to just under 19%. The publication on 13th December of a somewhat smaller trade deficit for November, and the Chancellor's statement on fiscal measures on the 17th, had relatively little immediate effect on the market; but sterling later came into demand for forthcoming oil royalty and tax payments, and at the end of the year the dollar rate was $2·32⅞ and the effective depreciation had decreased to 17⅞%. In January, following a further large increase in oil prices over the Christmas period, the introduction of the three-day week, and speculation about the imminence of a general election, sterling came increasingly under pressure. There was some movement of funds from London, together with short selling of sterling by some continental operators, and the dollar rate fell very sharply, to touch $2·16½ at one point on the 16th, when the effective depreciation grew to over 20½%, the biggest of the period. The dollar rate fell as low as $2·15 on the 21st after the floating of the French franc, but thereafter rallied. By the end of the month, the effective depreciation was once more around 17%, the pound benefiting from the weakening of the yen and the French franc.

Among *other currencies*, the rapid recovery of the US dollar dominated the period. Its effective appreciation over the three months was nearly 9%. A fresh advance began in November when the extent of the reductions in

Arab oil supplies first became apparent. Following further large increases in the price of oil towards the end of the year, with their consequent serious implications for the balance of payments of other, less self-sufficient, industrial countries, the movement into dollars gathered pace. By early January several more central banks, besides those of Italy and Japan, were supporting their currencies by sales of dollars. The strengthening of the dollar enabled the US authorities to reduce and then to remove altogether (from 30th January) the controls on capital outflows which had been in operation since the middle of the sixties. When the controls were lifted, the dollar eased, but not by much. In all, at the end of the month, its effective depreciation since the Smithsonian settlement had been reduced to just under 3%.

The big improvement in the dollar meant a weakening of the EEC 'snake'. In the early part of the period, the deutschemark was mostly at the bottom of the band; it was succeeded by the Norwegian krone when the latter was revalued by 5% in the middle of November. Then the Arab states appeared to intensify their embargo on oil shipments to the Netherlands, and the guilder in turn fell to the bottom. For most of the period until the end of the year the Danish krone was at or near the top, but in January it was announced that controls on inflows into Western Germany were to be lifted, and the deutschemark moved to the top, with the French franc at the bottom. Pressures on the franc, which had effectively depreciated by 6% since October, now increased. On 19th January the French authorities announced that the currency would be allowed to float for at least six months. At first it depreciated further, but steadied after the 31st, when the authorities declared their intention to raise a loan for $1,500 million in the euro-dollar market. The French move left only the deutschemark, the guilder, the Belgian franc, and the Scandinavian currencies in the EEC scheme. Some of the central banks of the remaining participants sold dollars during the period; this helped to reduce tension within the band, and over the three months intervention in community currencies was relatively modest. A large part was for Netherlands account in the first half of December, when the guilder was under some pressure.

There were also substantial outflows from currencies outside the scheme. The lira continued to require sizable support from the Bank of Italy, and its effective post-Smithsonian depreciation increased from 12% to nearly 17%. On 3rd February, it was announced that the Federal Reserve Bank of New York had increased its swap facility with the Bank of Italy from $2 billion to $3 billion. The Bank of Japan continued to give heavy support to the yen, though moving the support point down on a number of occasions, so that during the period the effective appreciation of the yen on Smithsonian rates decreased from 9½% to 2%. Meanwhile, despite some outflow of funds, the Swiss franc gained a further 4%, bringing its total effective appreciation since the Smithsonian settlement to 15½%.

The London *gold market* experienced some active spells during November to January. After falling during the autumn, the price resumed its upward path in expectation of Arab demand, reaching new records of over US $140 per fine ounce in the second half of January. On 13th November, the formal termination of the 1968 Washington agreement was announced.[1] Under the agreement, the central banks of Belgium, Italy, the Netherlands, Switzerland, the United Kingdom, the United States, and Western Germany had ceased to buy or sell gold in the market. As a result of the termination, central banks formally reverted to the rules laid down by the IMF, which allow them to sell (but not buy) gold at a premium over the official price. In fact, there had been very few gold transactions at the official price for a number of years. Although the initial effect of the announcement was to provoke a sharp drop, from $97 to $90, the price soon began to recover when there was no sign of any central bank sales. In the latter part of December, with the return of currency uncertainties to foreign exchange markets and rumours that Arab states might seek gold in payment for their oil, the price began to rise sharply, and this movement

[1] See the June 1968 *Bulletin*, page 108.

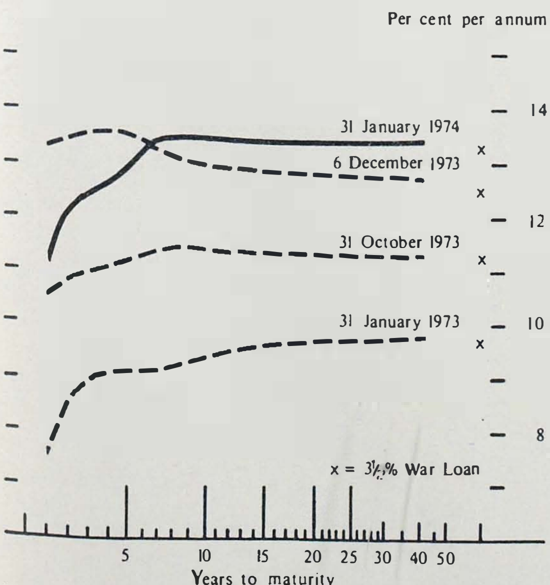
continued into the new year, when trading was often very active. The previous record at the fixing of $127, established last June, was again reached on 8th January and rapidly surpassed. A new record of $141·75 was temporarily established on the 21st, after the floating of the French franc. The price ended the period around $133, but rose well above $170 in February.

The money market

The Bank's operations in the money market were generally small in November and the first part of December. On the occasions when the market needed some help, the Bank preferred to buy bills rather than lend to the discount houses, though some overnight finance was given on 12th and 13th November. When, in mid-November, the authorities felt it necessary to raise short-term interest rates sharply, the Bank did not resort to operations in the market, but instead temporarily suspended the formula relating minimum lending rate to the average rate of discount at the Treasury bill tender, and raised the rate by announcement, on a Tuesday, from 11¼% to 13%. From 12th December, conditions were much tighter for a time, chiefly as a result of heavy buying by the public in the gilt-edged market. After Christmas, and in the first half of January, conditions were again mostly quieter. From the middle of the month, however, the market became much shorter of funds. The seasonal payments to the Inland Revenue were unusually heavy, and industrial firms paid over large amounts of value added tax. Rates in the parallel markets were driven higher and provided further scope for arbitrage. To ease the pressure, the Bank placed some funds on temporary deposit in the local authority market, as had been done in October.

At the weekly Treasury bill tender, offerings were alternately large and small in November and December (see Table 6 of the statistical annex). The average rate of discount on allotment was generally steady, except for the very sharp consequential jump between the tenders of 9th and 16th November following the administrative increase in minimum lending rate on the 13th. At the tender on 4th January, when the offering was small, the rate fell by nearly ¼%, and the Bank's minimum lending rate consequently went down by ¼% to 12¾%. The authorities were content to see money rates ease a little, the thrust of the large rise in November having been reinforced by the measures announced on 17th December. Offerings remained small in January, and the tender rate eased a little further. Following the tender on 1st February, the fall had become sufficient to lower the minimum lending rate another ¼%, to 12½%.

Time/yield curves of British government stocks[a]



After very sharp rises in the first half of the period, yields on short-dated stocks fell from mid-December, but those on longer-dated stocks continued to rise.

[a] The lines measure the nominal rate of interest which a stock at each maturity should bear if issued at par. The curve runs from the shortest-dated stock with a life of more than one year to the longest-dated stock. The construction of the curves is discussed in the September 1973 *Bulletin*, page 315.

The gilt-edged market

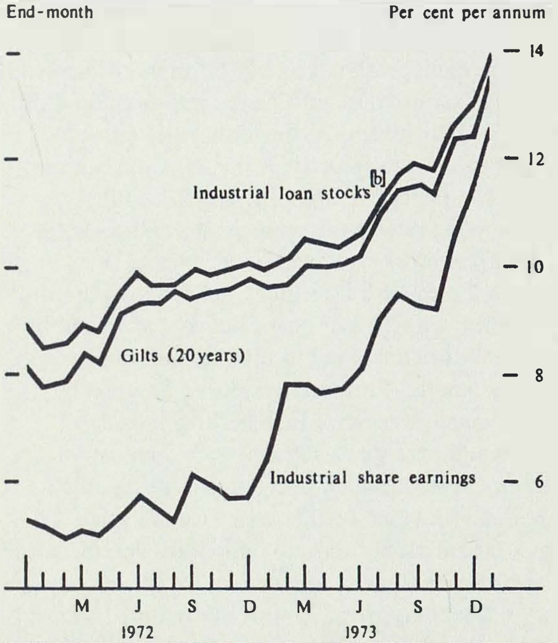
In the first part of November the gilt-edged market was generally quiet, though with some demand for short-dated stocks. The restrictive monetary measures taken in the middle of the month produced a very sharp fall in prices, and yields rose to new heights. Prices drifted further during the rest of the month, and then, because of the growing energy troubles, again fell very sharply early in December. By 6th December yields were generally well over 12½% (see the chart); the yield on undated 3½% War Loan was 12·7%.

The market then improved strongly in advance of the Chancellor's deflationary measures of 17th December. Official sales of stocks were heavy, with 9% Treasury Convertible Stock 1980 in good demand. Shortly after Christmas, however, as the economic outlook remained unsettled, sentiment once again weakened somewhat.

In all in the December quarter, the authorities sold, net, about £320 million of gilt-edged. Sales of stocks with between one and five years to maturity accounted for nearly £300 million, those with between five and fifteen years for some £240 million, and those with more than fifteen years for £180 million. Against these, the authorities bought £290 million of next maturing stocks, and one stock, 5¼% Treasury Stock 1973, was redeemed, of which about £110 million (out of £550 million issued) remained in the hands of the market at the final date, 10th December. As in the previous quarter, the banks and discount houses sold heavily, and net purchases of gilt-edged by the general public amounted to £475 million.

In the first half of January, the market generally remained hesitant, as the apparent outlook for the economy became by turns more or less favourable. None the less, some official sales were possible from time to time. Later, the market weakened sharply as the industrial situation worsened, and by the end of the month yields (except on short-dated stocks) were well above the previous peak of early December (see the chart). The yield on War Loan was 13·4% on 29th January.

Security yields[a]



Yields rose exceptionally strongly between November and January.

[a] From Table 31 of the statistical annex.
[b] Bank index.

Equity and debenture markets

The *equity market,* which had recovered substantially in October, continued to be about as active in November. In December and January, however, as the economic outlook clouded, turnover fell away again. Prices fell heavily following the rise in interest rates on 13th November. The FT-Actuaries industrial (500) share price index (1962=100) slid from 185 at the end of October to a low point of 135 after the Government's announcement in mid-December of the three-day week. Although there was then some recovery, the market remained uncertain, and, after further falls in prices late in January, the index was still as low as 143 at the end of the month. Not surprisingly, new equity issues were once more negligible: only £11 million of new money was raised in the three months. Net sales of unit trust units in the period were also again unusually small, at some £20 million.

The *debenture market* followed a somewhat similar course. Turnover was quite heavy in November but fell sharply in December. Yields, as measured by the Bank's index of 20–25 year loans, rose from 11·8% at the end of October to 13·2% in mid-December, briefly falling back a little, but ending January at 14·0%. New issues were again very few, and redemptions exceeded new issues by £7 million. On the other hand, issues of preference stock, mainly by water companies, raised £13 million.

Flow of funds accounts

Table A
Income and expenditure

£ millions

Seasonally adjusted

	Income from employment and trading[a] [b]	Transfer incomes etc.[b]	*less* Consumption[c]	*less* Current transfer payments	*equals* Saving	*less* Gross domestic capital formation[a] [d]	*less* Capital transfers (net payments −)	*equals* Financial surplus/ deficit[e]
Personal sector								
1972 1st qtr.	8,817	3,811	− 9,320	−2,577	731	− 634	−102	− 5
2nd „	9,137	4,014	− 9,616	−2,408	1,127	− 654	− 99	374
3rd „	9,392	3,895	− 9,954	−2,488	845	− 587	− 86	172
4th „	9,792	4,211	−10,373	−2,619	1,011	− 685	− 85	241
1973 1st qtr.	10,113	4,408	−10,862	−2,805	854	− 846	− 90	− 82
2nd „	10,415	4,665	−10,898	−2,899	1,283	− 730	− 68	485
3rd „	10,783	4,703	−11,245	−2,980	1,261	− 838	− 78	345
Company sector[f]								
1972 1st qtr.	1,499	1,335		−1,703	1,131	−1,044	104	191
2nd „	1,614	1,363		−1,911	1,066	−1,098	86	54
3rd „	1,692	1,478		−1,859	1,311	−1,308	68	71
4th „	1,779	1,600		−1,852	1,527	−1,349	69	247
1973 1st qtr.	1,962	1,819		−2,157	1,624	−1,769	78	− 67
2nd „	2,143	1,837		−2,274	1,706	−1,786	60	− 20
3rd „	2,165	2,013		−2,222	1,956	−2,259	82	−221
Public sector								
1972 1st qtr.	343	5,567	− 2,832	−2,346	732	−1,134	− 2	−404
2nd „	453	5,635	− 2,843	−2,377	868	−1,180	13	−299
3rd „	476	5,612	− 2,904	−2,386	798	−1,192	18	−376
4th „	518	5,799	− 3,073	−2,540	704	−1,228	16	−508
1973 1st qtr.	474	6,096	− 3,156	−2,571	843	−1,405	− 26	−588
2nd „	487	5,956	− 3,230	−2,626	587	−1,334	− 11	−758
3rd „	488	6,294	− 3,387	−2,749	646	−1,493	− 5	−852
Overseas sector[g]								
1972 1st qtr.					− 79			− 79
2nd „					− 131			−131
3rd „					110			110
4th „					17			17
1973 1st qtr.					187		38	225
2nd „					208		19	227
3rd „					317		1	318

[a] Before providing for depreciation and stock appreciation.
[b] Rent and income from self-employment are included with transfer incomes and not with income from trading.
[c] Other than depreciation.
[d] Including stocks.
[e] The sum of sector surpluses and deficits corresponds to the residual error in the national income accounts.
[f] Including financial institutions.
[g] See the note on line 5 at the end.

Table B

Public sector

£ millions

Seasonally adjusted

	1971		1972				1973			
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Capital expenditure	+1,124	+1,169	+1,134	+1,180	+1,192	+1,228	+1,405	+1,334	+1,493	
less Saving	−1,126	−1,002	− 732	− 868	− 798	− 704	− 843	− 587	− 646	
less Capital transfers (net)	+ 35	+ 3	+ 2	− 13	− 18	− 16	+ 26	+ 11	+ 5	
equals Financial surplus −/ deficit +	+ 33	+ 170	+ 404	+ 299	+ 376	+ 508	+ 588	+ 758	+ 852	
Lending and other transactions (increase in assets +)[a] [b]	+ 186	+ 235	− 47	+ 143	+ 147	+ 321	+ 22	+ 555	+ 401	
Import deposits (repayments +)	+ 1									
Unidentified	+ 78	+ 18	− 317	+ 159	− 37	+ 102	− 86	− 67	− 221	
Borrowing requirement (increase +)[b]	+ 298	+ 423	+ 40	+ 601	+ 486	+ 931	+ 524	+1,246	+1,032	
Financed by (borrowing −):										
Central government:										
External transactions	+ 779	+ 976	− 35	− 955	− 184	− 221	+ 144	+ 342	− 51	+ 137
Notes and coin with the public	− 54	− 41	− 138	− 125	− 95	− 137	− 138	− 129	− 4	− 168
Bank borrowing[b]	− 248	− 546	+ 306	+ 865	+ 201	− 169	− 613	− 343	+ 338	− 467
Other domestic borrowing[c]	− 632	− 631	− 203	− 111	− 198	− 230	+ 134	− 547	− 469	− 194
	− 155	− 242	− 70	− 326	− 276	− 757	− 473	− 677	− 186	− 692
Local authorities: †										
External finance	+ 2	− 28	− 41	+ 17	− 60	− 65	− 70	− 16	− 95	
Bank borrowing	− 174	− 163	+ 57	− 28	− 73	+ 13	+ 127	+ 32	− 98	− 82
Other domestic borrowing[d]	+ 35	+ 65	− 81	− 114	− 30	− 116	− 210	− 412	− 95	
	− 137	− 126	− 65	− 125	− 163	− 168	− 153	− 396	− 288	
Public corporations: †										
External finance	− 6	− 7	− 22	− 9	+ 10	+ 1	− 27	− 12	+ 9	
Domestic borrowing	−	− 48	+ 117	− 141	− 57	− 7	+ 129	− 161	− 567	
	− 6	− 55	+ 95	− 150	− 47	− 6	+ 102	− 173	− 558	
Total net borrowing	− 298	− 423	− 40	− 601	− 486	− 931	− 524	−1,246	−1,032	

† In 1973 public bodies borrowed in foreign currencies (mostly euro-dollars and mostly under the Treasury exchange guarantee) as follows:

	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Local authorities:				
From UK banks	18	60	13	7
Direct from overseas	10	46	25	55
Public corporations:				
From UK banks	25	177	330	231
Direct from overseas	52	10	− 8	85

[a] Consisting principally of lending to overseas and private sectors (including refinancing of export credits and public corporations' identified trade credit) and changes in bank deposits.

[b] For 1973 the seasonal adjustments for the central government borrowing requirement have been modified to take account of the initial staggering of VAT payments. Largely because manufacturers paid five months' tax in October, the fourth quarter receipts were higher and the third quarter receipts lower than they typically will be after the transition, and the adjustment has spread these receipts more evenly over the second, third and fourth quarters of 1973 (though the second quarter is hardly affected). As a result, the seasonally-adjusted central government borrowing requirement for the third quarter is now calculated to be considerably less than the figure published in the December 1973 *Bulletin*. The offset for industrial and commercial companies has been spread, somewhat arbitrarily, between changes in their bank deposits, which have been reduced in the third quarter and increased in the fourth, and changes in their bank borrowing, which have been adjusted in the opposite directions. Finally, to neutralise the impact of the tax delay on bank lending to the public sector, this has been correspondingly reduced in the third quarter and increased in the fourth.

[c] Issue Department's transactions in commercial bills and local authority debt are included here.

[d] Including Issue Department's transactions in local authority debt.

Table C

Overseas sector[a]

£ millions

Seasonally adjusted

Claims on UK: increase +/decrease –
Liabilities to UK: increase –/decrease +

	1971		1972				1973			
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Financial surplus +/deficit –	–380	– 248	– 79	–131	+110	+ 17	+225	+227	+318	
Transactions with the UK private sector										
Investment flows:										
Transactions in company and overseas securities	+217	+ 30	–181	–155	–119	– 99	+ 21	+ 90	– 7	
Miscellaneous private investment	+ 4	+ 20	+ 10	– 50	– 13	–130	– 91	– 36	+118	
Other transactions:										
Net external transactions by UK banks[b]	+153	+ 541	+178	–219	– 11	+ 64	+284	+415	+168	+480
Other identified	+219	– 105	– 61	–220	–104	+333	– 16	+199	–241	
Balancing item	– 97	+ 288	– 58	–332	+187	–359	+188	– 51	+212	
	+496	+ 774	–112	–976	– 60	–191	+386	+617	+250	
Transactions with the UK public sector										
Lending etc.[c]	–101	– 81	– 65	–102	– 64	– 77	–114	– 76	– 69	
External finance: [d]										
Central government	–779	– 976	+ 35	+955	+184	+221	–144	–342	+ 51	–137
Local authorities	– 2	+ 28	+ 41	– 17	+ 60	+ 65	+ 70	+ 16	+ 95	
Public corporations	+ 6	+ 7	+ 22	+ 9	– 10	– 1	+ 27	+ 12	– 9	
	–876	–1,022	+ 33	+845	+170	+208	–161	–390	+ 68	

[a] It has not been possible to include in this table the balance of payments estimates for the 4th quarter of 1973, and revisions to previous quarters, which were released in March.
[b] Other than purchases of securities.
[c] These overseas transactions of the public sector contribute to its borrowing requirement.
[d] These overseas transactions of the public sector are among the items financing its borrowing requirement.

Table D

Personal sector

£ millions

Seasonally adjusted

	1971		1972				1973			
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Saving	+ 755	+ 814	+ 731	+1,127	+ 845	+1,011	+ 854	+1,283	+1,261	
Capital transfers (net)	– 87	– 87	– 102	– 99	– 86	– 85	– 90	– 68	– 78	
Capital expenditure	– 527	– 597	– 634	– 654	– 587	– 685	– 846	– 730	– 838	
Financial surplus (+)	+ 141	+ 130	– 5	+ 374	+ 172	+ 241	– 82	+ 485	+ 345	
Borrowing (–)										
For house purchase	– 504	– 545	– 587	– 673	– 718	– 701	– 752	– 651	– 663	
Bank borrowing[a]	– 236	– 233	– 444	– 580	– 259	– 644	– 484	– 276	– 364	+ 85
Hire-purchase debt	– 88	– 77	– 65	– 46	– 65	– 65	– 43	+ 6	– 29	
Other[b]	+ 53	– 106	+ 101	+ 56	– 20	– 158	– 19	– 61	+ 73	
	– 775	– 961	– 995	–1,243	–1,062	–1,568	–1,298	– 982	– 983	
Acquisition of financial assets (+)										
Life assurance and pension funds	+ 519	+ 512	+ 558	+ 623	+ 581	+ 612	+ 740	+ 640	+ 600	
Government stocks	+ 174	+ 101	– 130	+ 33	+ 56	+ 46	+ 134	+ 221	+ 197	
Company and overseas securities	– 319	– 351	– 216	– 297	– 263	– 253	– 312	– 188	– 497	
Unit trust units	+ 9	+ 22	+ 23	+ 57	+ 58	+ 65	+ 57	+ 52	+ 32	+ 27
Bank deposits, notes and coin	+ 319	+ 382	+ 532	+ 471	+ 445	+ 565	+ 632	+ 875	+ 965	+1,039
Building society shares and deposits	+ 527	+ 583	+ 588	+ 584	+ 453	+ 514	+ 447	+ 738	+ 505	+ 366
National savings	+ 88	+ 140	+ 130	+ 170	+ 108	+ 67	+ 56	+ 80	+ 73	– 71
Local authority debt	– 66	– 89	– 33	– 60	– 25	+ 36	+ 40	+ 12	+ 118	
Other	+ 59	+ 114	+ 67	+ 92	+ 69	+ 91	+ 2	+ 30	+ 3	
	+1,310	+1,414	+1,519	+1,673	+1,482	+1,743	+1,796	+2,460	+1,996	
Identified financial transactions	+ 535	+ 453	+ 524	+ 430	+ 420	+ 175	+ 498	+1,478	+1,013	
Unidentified	*– 394*	*– 323*	*– 529*	*– 56*	*– 248*	*+ 66*	*– 580*	*– 993*	*– 668*	

[a] Other than for house purchase.
[b] Including accruals adjustments and trade credit extended by public corporations.

Table E
Industrial and commercial companies

£ millions

Seasonally adjusted

Assets: increase +/decrease –
Liabilities: increase –/decrease +

	1971		1972				1973			
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Domestic capital formation	+961	+882	+ 915	+986	+1,120	+1,186	+1,578	+1,564	+1,975	
less Saving	–826	–872	–1,017	–939	–1,136	–1,357	–1,360	–1,455	–1,676	
less Capital transfers (net)	–134	–101	– 116	– 98	– 81	– 83	– 93	– 75	– 97	
equals Financial surplus –/deficit +	+ 1	– 91	– 218	– 51	– 97	– 254	+ 125	+ 34	+ 202	
Trade investments, mergers, etc. in the United Kingdom	+128	+ 85	+ 114	+124	+ 119	+ 175	+ 135	+ 103	+ 218	
Long-term investment abroad	+157	+186	+ 168	+167	+ 176	+ 257	+ 276	+ 292	+ 218	
Import deposits	– 1									
Total requiring financing (+)	**+285**	**+180**	**+ 64**	**+240**	**+ 198**	**+ 178**	**+ 536**	**+ 429**	**+ 638**	
Capital issues (including euro-currency issues)	–119	–141	– 136	–203	– 212	– 176	– 109	– 86	– 16	– 18
Overseas investment in UK companies	–158	–142	– 140	–107	– 151	– 100	– 126	– 268	– 228	
Import credit and advance payments on exports	– 47	– 33	– 54	– 4	– 88	– 124	– 82	– 89	– 41	
Export credit and advance payments on imports	– 6	– 10	+ 13	+ 43	+ 56	+ 21	+ 53	– 12	+ 51	
Bank borrowing[a]	–228	–266	– 770	–727	– 648	– 843	– 670	– 501	–1,698	–1,549
Other borrowing[a] [b]	–106	– 50	– 5	– 25	– 13	– 12	– 341	– 290	– 490	
Bank deposits, notes and coin[a]	+145	+394	+ 317	+568	+ 626	+ 777	+ 662	+ 70	+1,093	+ 777
Other liquid assets[c]	+ 73	+ 41	+ 35	– 4	+ 6	+ 37	+ 66	+ 79	– 4	
Other items[d]	+ 32	+ 63	+ 90	– 61	– 25	+ 5	+ 181	– 45	+ 48	
Other overseas transactions (including the balance of payments balancing item)[e]	– 55	–114	+ 70	+481	– 22	+ 96	– 173	– 45	+ 48	
Unidentified domestic transactions[e]	*+184*	*+ 78*	*+ 516*	*–201*	*+ 273*	*+ 141*	*+ 3*	*+ 758*	*+ 599*	
Total financing	**–285**	**–180**	**– 64**	**–240**	**– 198**	**– 178**	**– 536**	**– 429**	**– 638**	

[a] See footnote [b] to Table B.

[b] Including transactions in commercial bills by the Issue Department, and also accruals adjustments for local authority rates, bank advances and deposits, purchase tax, SET, and VAT.

[c] Treasury bills, local authority debt, tax reserve certificates, tax deposit accounts, and deposits with other financial institutions.

[d] Trade credit to public corporations, and hire-purchase lending.

[e] Most of the balancing item in the balance of payments accounts, especially when large, reflects unidentified transactions between companies and overseas. The whole of it is here regarded in this light in order to distinguish roughly between companies' domestic transactions and their overseas ones. It is deducted from the total amount unidentified in the accounts to leave a rough estimate of unidentified domestic transactions.

Table F

Banking sector

£ millions

Seasonally adjusted

Lending: increase +/decrease –
Deposits: increase –/decrease +

	1971		1972				1973			
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Lending to:										
Public sector[a]	+ 432	+ 758	– 466	– 697	– 45	+ 182	+ 369	+ 461	+ 341	+ 690
Industrial and commercial companies[a]	+ 232	+ 270	+ 820	+ 800	+ 656	+ 854	+ 684	+ 503	+1,736	+1,645
Other financial institutions	+ 155	+ 217	+ 271	+ 338	+ 174	+ 249	+ 287	+ 64	+ 141	+ 294
Personal sector	+ 261	+ 273	+ 499	+ 670	+ 359	+ 744	+ 554	+ 371	+ 454	– 50
Total domestic lending	+1,080	+1,518	+1,124	+1,111	+1,144	+2,029	+1,894	+1,399	+2,672	+2,579
Deposits by:										
Public sector	– 7	– 30	+ 13	+ 5	+ 4	– 102	+ 15	– 56	+ 30	– 89
Industrial and commercial companies[a]	– 118	– 372	– 248	– 505	– 578	– 708	– 593	– 5	–1,091	– 693
Other financial institutions	– 2	– 228	– 128	– 498	+ 36	– 328	– 224	– 242	– 296	– 282
Personal sector	– 292	– 362	– 463	– 409	– 398	– 497	– 563	– 811	– 963	– 955
Total domestic deposits	– 419	– 992	– 826	–1,407	– 936	–1,635	–1,365	–1,114	–2,320	–2,019
Net lending to overseas sector[b]	– 357	– 559	– 197	+ 295	+ 34	– 123	– 201	– 420	– 176	– 458
Non-deposit liabilities (net)	– 304	+ 33	– 101	+ 1	– 242	– 271	– 328	+ 135	– 176	– 102

[a] See footnote [b] to Table B.
[b] Claims on overseas sector net of overseas deposits. Including foreign currency borrowing to finance loans to UK public sector.

Table G

Financial institutions other than banks

£ millions

Seasonally adjusted

	1971		1972				1973			
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Increase in financial liabilities (–)										
Life assurance and pension funds	– 519	– 512	– 558	– 623	– 581	– 612	– 740	– 640	– 600	
Building society shares and deposits	– 545	– 606	– 602	– 596	– 465	– 524	– 457	– 773	– 490	– 350
Other deposits	– 78	– 105	– 7	– 61	– 74	– 71	– 132	– 19	– 47	
Capital issues	– 55	– 50	– 99	– 230	– 78	– 32	– 46	– 5	– 4	– 10
Unit trust units	– 9	– 22	– 23	– 57	– 58	– 65	– 57	– 52	– 32	– 27
Other (mainly bank) borrowing	– 155	– 201	– 270	– 337	– 173	– 249	– 286	– 63	– 140	
	–1,361	**–1,496**	**–1,559**	**–1,904**	**–1,429**	**–1,553**	**–1,718**	**–1,552**	**–1,313**	
Increase in financial assets (+)										
Short-term assets [a]	– 8	+ 237	+ 107	+ 553	– 94	+ 403	+ 236	+ 455	+ 236	
Government stocks	+ 342	+ 310	+ 240	+ 66	+ 13	+ 99	+ 77	+ 281	+ 123	
Company and overseas securities:										
Ordinary shares	+ 260	+ 254	+ 379	+ 589	+ 468	+ 356	+ 133	+ 88	+ 83	
Fixed interest	+ 85	+ 33	+ 87	+ 31	+ 46	+ 71	+ 39	+ 23	+ 19	
Loans for house purchase	+ 440	+ 461	+ 493	+ 560	+ 598	+ 566	+ 635	+ 488	+ 474	
Long-term lending to local authorities	+ 6	+ 39	+ 66	+ 15	+ 54	+ 8	+ 32	+ 27	+ 61	
Hire-purchase claims	+ 65	+ 47	+ 49	+ 42	+ 20	+ 52	+ 29	+ 24	+ 30	
Other lending	+ 9	+ 61	– 19	– 32	+ 83	+ 48	+ 125	+ 76	+ 113	
	+1,199	**+1,442**	**+1,402**	**+1,824**	**+1,188**	**+1,603**	**+1,306**	**+1,462**	**+1,139**	
Net identified financial transactions	**– 162**	**– 54**	**– 157**	**– 80**	**– 241**	**+ 50**	**– 412**	**– 90**	**– 174**	

[a] Bank deposits, tax reserve certificates, tax deposit accounts, Treasury bills, and local authority temporary debt.

Table H

Flow of funds: third quarter 1973

£ millions

Not seasonally adjusted

	Line	Public sector	Overseas sector[a]	Personal sector	Industrial and commercial companies	Banking sector	Other financial institutions	Residual error
Capital account								
Saving	1	+ 350	+335	+1,182	+1,728	+401		
Taxes on capital and capital transfers	2	– 24	+ 1	– 75	+ 104	– 6		
less:								
Gross fixed capital formation at home	3	–1,403		– 735	–1,079	–248		
Increase in value of stocks and work in progress	4	– 77		– 136	– 876	– 16		
Financial surplus +/deficit –	5	**–1,154**	**+336**	**+ 236**	**– 123**	**+131**		**+574**
Changes in financial assets and liabilities								
Assets: increase +/decrease – *Liabilities: increase –/decrease +*								
Net indebtedness of Government to Bank of England, Banking Department	6	– 301				+ 301		
Life assurance and pension funds	7			+ 600			–600	
Loans by the UK Government	8	+ 73	– 8		– 66		+ 1	
Total external currency flow	9.1	– 258	+258					
Other central government external transactions	9.2	+ 216	–216					
Banks' net external transactions	10		+207			– 207		
Miscellaneous investment overseas (net)	11	+ 70	–160		+ 109		– 19	
Notes and coin	12	– 10		– 24	– 24	+ 58		
Bank deposits of domestic sectors	13	– 62		+ 900	+1,262	–2,385	+285	
Deposits with other financial institutions	14		+ 15	+ 506	+ 5		–526	
National savings	15.1	– 37		+ 37				
Tax reserve certificates/tax deposit accounts	15.2	+ 22		– 18	– 4	–	–	
Bank lending to domestic sectors	16	– 580		– 240	–1,210	+2,143	–113	
Hire-purchase debt	17	+ 3		– 28	– 10		+ 35	
Loans for house purchase	18	+ 99		– 694		+ 90	+505	
Other loans and accruals	19	+ 416		+ 68	– 715	+ 128	+103	
Marketable government debt held by domestic sectors:								
Treasury bills	20	– 109			+ 6	+ 104	– 1	
Stocks	21	– 105		+ 197		– 215	+123	
Local authority debt	22	– 328	+101	+ 100	+ 19	+ 74	+ 34	
UK company and overseas securities:								
Capital issues	23		+ 17		– 16	– 17	– 4	
Other transactions	24	+ 10	– 24	– 497	+ 316	+ 113	+102	
Unit trust units	25			+ 27			– 27	
Identified financial transactions	26	**– 881**	**+190**	**+ 934**	**– 328**	**+ 187**	**–102**	
Unidentified	27	*– 273*	*+146*	*– 698*	*+ 205*	*+ 46*		*+574*
Total=Financial surplus +/deficit –	28	**–1,154**	**+336**	**+ 236**	**– 123**	**+131**		**+574**

– nil or less than £½ million.

[a] It has not been possible to incorporate in this table the revised balance of payments estimates released in March.

Table J
Flow of funds: third quarter 1973

£ millions

Seasonally adjusted

	Line	Public sector	Overseas sector[a]	Personal sector	Industrial and commercial companies	Banking sector	Other financial institutions	Residual error
Capital account								
Saving	1	+ 646	+317	+1,261	+1,676	+280		
Taxes on capital and capital transfers	2	– 5	+ 1	– 78	+ 97	– 15		
less:								
Gross fixed capital formation at home	3							
Increase in value of stocks and work in progress	4	–1,493		– 838	–1,975	–284		
Financial surplus +/deficit –	5	**– 852**	**+318**	**+ 345**	**– 202**	**– 19**		**+410**
Changes in financial assets and liabilities								
Assets: increase +/decrease –								
Liabilities: increase –/decrease +								
Net indebtedness of Government to Bank of England, Banking Department	6	– 364				+ 364		
Life assurance and pension funds	7			+ 600			–600	
Loans by the UK Government	8	+ 73	– 8	–	– 66		+ 1	
Total central government external transactions	9	– 51	+ 51					
Banks' net external transactions	10		+168			– 168		
Miscellaneous investment overseas (net)	11	+ 70	–213		+ 162		– 19	
Notes and coin	12	– 76		+ 2	+ 2	+ 72		
Bank deposits of domestic sectors	13	– 30		+ 963	+1,091	–2,320	+296	
Deposits with other financial institutions	14		+ 20	+ 526	– 9		–537	
National savings	15.1	– 73		+ 73				
Tax reserve certificates/tax deposit accounts	15.2	+ 22		– 18	– 4	–	–	
Bank lending to domestic sectors	16	– 581		– 364	–1,698	+2,784	–141	
Hire-purchase debt	17	+ 3		– 29	– 4		+ 30	
Loans for house purchase	18	+ 99		– 663		+ 90	+474	
Other loans and accruals	19	+ 148		+ 73	– 372	+ 19	+132	
Marketable government debt held by domestic sectors:								
Treasury bills	20	+ 540			+ 6	– 545	– 1	
Stocks	21	– 105		+ 197		– 215	+123	
Local authority debt	22	– 316	+ 95	+ 118	+ 3	+ 98	+ 2	
UK company and overseas securities:								
Capital issues	23		+ 17		– 16	– 17	– 4	
Other transactions	24	+ 10	– 24	– 497	+ 316	+ 113	+102	
Unit trust units	25			+ 32			– 32	
Identified financial transactions	26	**– 631**	**+106**	**+1,013**	– 589	+ 275	–174	
Unidentified	27	*– 221*	*+212*	*– 668*	*+ 387*	*–120*		*+410*
Total=Financial surplus +/deficit –	28	– 852	+318	+ 345	– 202	– 19		+410

– nil or less than £½ million.

[a] It has not been possible to incorporate in this table the revised balance of payments estimates released in March.

Notes on sources, definitions and seasonal adjustments [1]

Sources

The main statistical series used in compiling Tables H and J appear in the statistical annex to this *Bulletin* or in the Central Statistical Office's *Financial Statistics* or *Economic Trends*. The seasonally-adjusted figures are not published elsewhere.

Definitions (line numbers refer to Tables H and J)

Public sector
The central government, local authorities, and nationalised industries and other public corporations.

Overseas sector
Non-residents as defined for the balance of payments estimates.

Persons
Individuals, unincorporated businesses, and private non-profit-making bodies.

Industrial and commercial companies
All corporate bodies other than public corporations, banks, and other financial institutions.

Banks
As in Table 11 of the statistical annex.

Other financial institutions
Insurance companies, pension funds, building societies, investment trusts, finance houses, savings banks investment accounts, authorised unit trusts, property unit trusts, special finance agencies, and Crown Agents for Oversea Governments and Administrations.

Lines 1–4
As defined in the national income and expenditure accounts.

Line 5
The sum of the financial surpluses/deficits for all sectors equals the residual error in the national accounts. For the overseas sector, the entry is the counterpart of the UK balance of payments on current account plus, from the first quarter of 1973, capital transfer payments.

Line 6
See footnote [c] to Table 1 of the annex.

Line 7
The increase in persons' net claims on these funds.

Lines 9.1 and 9.2
See additional notes to Table 1 of the annex.

Line 10
Broadly, changes in overseas deposits with the banking sector less lending to overseas by the banking sector.

Line 11
Those parts of the balance of payments items classified as investment and other capital flows which are not elsewhere included. That part of export credit extended by UK banks which is refinanced by the central government is included here.

Line 12
Changes in Bank of England notes (treated as liabilities of the public sector), in banks' liabilities on account of issues of Scottish and Northern Irish notes, and in coin.

Line 13
Changes in gross current and deposit accounts of UK residents, after the entries for the banking sector and industrial and commercial companies have been adjusted for 60% of transit items (see additional notes to Table 11 of the annex). Changes in domestic holdings of sterling certificates of deposit are included here.

Line 14
Includes building society shares. Deposits by banks with finance houses are in line 16.

Lines 15.1 and 15.2
As in Table 3/2 of the annex but including tax deposit accounts.

[1] Fuller notes were given in the June 1972 *Bulletin*, pages 202–4. A detailed description is given in *An introduction to flow of funds accounting: 1952–70* (Bank of England, August 1972).

Line 16
Advances and overdrafts, money at call and short notice, and transactions in commercial bills; excluding loans for house purchase (included in line 18); lending to local authorities (line 22); and lending to the Northern Ireland Government (line 19). Recorded advances to industrial and commercial companies are adjusted for 40% of the change in transit items (see also line 13).

Line 17
Includes other instalment debt.

Line 18
New loans less repayments, including estimates for banks, and lending by the public sector to housing associations.

Line 19
Loans between domestic sectors not entered elsewhere, including trade credit given or received by public corporations; and differences between accruals of local authority rates, purchase tax, value added tax, and interest charges (the basis of entries in the national accounts) and the corresponding cash payments.

Lines 20 and 21
As defined in additional notes to Table 3/1 of the annex. For Treasury bills (stocks), the entries for persons (industrial and commercial companies) are residuals and include unidentified transactions by industrial and commercial companies (persons) and overseas.

Line 22
Total identified borrowing by local authorities from outside the public sector.

Line 23
Net issues on the UK market, and euro-currency issues by UK companies.

Line 24
All other transactions. The entries for persons are residuals from the estimates in lines 23 and 24 for all other sectors.

Line 25
Net sales of units to persons by authorised unit trusts.

Line 27
The net total for all sectors corresponds to the residual error in the national accounts.

Seasonal adjustments

After preliminary adjustments have been obtained for each item which displays seasonality, consistent adjustments have been estimated by a system of balancing, under which the sum of the adjustments for each item over the four quarters in each calendar year is zero and the sum of adjustments of all sectors for a particular line entry in any quarter is zero. Also, for certain series (such as notes and coin) an adjustment is made to allow for the days of the week on which a quarter begins and ends; but these will not usually completely cancel out over the year. The adjustments take full account of the data up to the end of 1972, and also attempt to cater for transitional problems associated with the introduction of VAT in 1973 (see footnote [b] to Table B on page 30).